

# **Bergman School District No. 3**

**Boone County, Arkansas**

## **Regulatory Basis Financial Statements and Other Reports**

**June 30, 2011**

LEGISLATIVE JOINT AUDITING COMMITTEE

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BOONE COUNTY, ARKANSAS  
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**Sen. Bill Pritchard**  
Senate Chair  
**Rep. Tim Summers**  
House Chair  
**Sen. David Wyatt**  
Senate Vice Chair  
**Rep. Toni Bradford**  
House Vice Chair

# Arkansas



**Roger A. Norman, JD, CPA, CFE**  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Bergman School District No. 3 and School Board Members  
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Bergman School District No. 3 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2011, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in dark ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being more prominent.

Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
November 22, 2011  
EDSD02611

**Sen. Bill Pritchard**  
Senate Chair  
**Rep. Tim Summers**  
House Chair  
**Sen. David Wyatt**  
Senate Vice Chair  
**Rep. Toni Bradford**  
House Vice Chair

# Arkansas



**Roger A. Norman, JD, CPA, CFE**  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Bergman School District No. 3 and School Board Members  
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Bergman School District No. 3 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated November 22, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be a material weakness.

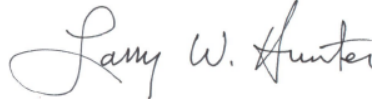
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
November 22, 2011

Sen. Bill Pritchard  
Senate Chair  
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# Arkansas



Roger A. Norman, JD, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Bergman School District No. 3 and School Board Members  
Legislative Joint Auditing Committee

### Compliance

We have audited the Bergman School District No. 3 (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

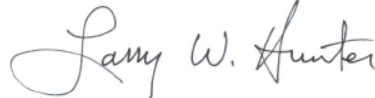
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

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Larry W. Hunter, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
November 22, 2011



BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
JUNE 30, 2011

Exhibit A

|  | Governmental Funds  |                    |                    |                  |
|--|---------------------|--------------------|--------------------|------------------|
|  | Major               |                    |                    | Fiduciary        |
|  | General             | Special<br>Revenue | Other<br>Aggregate | Fund Types       |
| ASSETS                                 |                     |                    |                    |                  |
| Cash                                   | \$ 1,114,739        |                    | \$ 407,316         | \$ 56,134        |
| Investments                            | 1,149,730           |                    |                    |                  |
| Accounts receivable                    | 17                  | \$ 41,205          |                    |                  |
| Due from other funds                   | 15,151              |                    | 13,600             |                  |
| Deposit with paying agent              |                     |                    | 105,392            |                  |
|  |                     |                    |                    |                  |
| TOTAL ASSETS                           | <u>\$ 2,279,637</u> | <u>\$ 41,205</u>   | <u>\$ 526,308</u>  | <u>\$ 56,134</u> |
| LIABILITIES AND FUND BALANCES          |                     |                    |                    |                  |
| Liabilities:                           |                     |                    |                    |                  |
| Accounts payable                       | \$ 16,785           | \$ 8,393           | \$ 12,868          |                  |
| Due student groups                     |                     |                    |                    | \$ 49,127        |
| Due to other funds                     | 13,600              | 15,151             |                    |                  |
| Deferred taxes                         | 34,071              |                    |                    |                  |
| Total Liabilities                      | <u>64,456</u>       | <u>23,544</u>      | <u>12,868</u>      | <u>49,127</u>    |
| Fund Balances:                         |                     |                    |                    |                  |
| Restricted                             | 14,687              | 17,661             | 229,308            | 7,007            |
| Assigned                               | 36,475              |                    | 284,132            |                  |
| Unassigned                             | 2,164,019           |                    |                    |                  |
| Total Fund Balances                    | <u>2,215,181</u>    | <u>17,661</u>      | <u>513,440</u>     | <u>7,007</u>     |
|  |                     |                    |                    |                  |
| TOTAL LIABILITIES AND<br>FUND BALANCES | <u>\$ 2,279,637</u> | <u>\$ 41,205</u>   | <u>\$ 526,308</u>  | <u>\$ 56,134</u> |

The accompanying notes are an integral part of these financial statements.

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

|  | Major               |                    | Other             |
|--|---------------------|--------------------|-------------------|
|  | General             | Special<br>Revenue | Aggregate         |
| REVENUES   |                     |                    |                   |
| Property taxes (including property tax relief trust distribution)                            | \$ 1,425,554        |                    |                   |
| State assistance   | 6,066,883           | \$ 4,369           |                   |
| Federal assistance   |                     | 1,190,229          | \$ 10,250         |
| Activity revenues  | 107,892             |                    |                   |
| Meal sales   |                     | 147,642            |                   |
| Investment income  | 44,458              |                    | 2,591             |
| Other revenues   | 20,588              | 32,949             |                   |
| <b>TOTAL REVENUES</b>  | <b>7,665,375</b>    | <b>1,375,189</b>   | <b>12,841</b>     |
| EXPENDITURES   |                     |                    |                   |
| Regular programs   | 3,406,224           | 185,415            |                   |
| Special education  | 383,598             | 251,215            |                   |
| Workforce education programs   | 326,322             |                    |                   |
| Compensatory education programs  | 263,006             | 271,611            |                   |
| Other instructional programs   | 187,983             |                    |                   |
| Student support services   | 293,428             | 34,994             |                   |
| Instructional staff support services   | 360,575             | 58,604             |                   |
| General administration support services  | 154,917             | 9,355              |                   |
| School administration support services   | 350,598             |                    |                   |
| Central services support services  | 50,479              |                    |                   |
| Operation and maintenance of plant services  | 690,532             | 17,127             |                   |
| Student transportation services  | 365,810             | 11,089             |                   |
| Other support services   | 5,780               | 29,810             |                   |
| Food services operations   |                     | 515,083            |                   |
| Community services operations  |                     | 286                |                   |
| Facilities acquisition and construction services   |                     |                    | 26,118            |
| Activity expenditures  | 98,174              |                    |                   |
| Debt Service:  |                     |                    |                   |
| Interest and fiscal charges  |                     |                    | 46,494            |
| <b>TOTAL EXPENDITURES</b>  | <b>6,937,426</b>    | <b>1,384,589</b>   | <b>72,612</b>     |
| <b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>  | <b>727,949</b>      | <b>(9,400)</b>     | <b>(59,771)</b>   |
| OTHER FINANCING SOURCES (USES)   |                     |                    |                   |
| Transfers in   |                     |                    | 477,774           |
| Transfers out  | (477,774)           |                    |                   |
| Refund to grantor  |                     | (21)               |                   |
| Net bond issuance costs  |                     |                    | (62,451)          |
| Payment to refunding bond escrow agent   |                     |                    | (2,291,313)       |
| Proceeds from the sale of refunding bonds  |                     |                    | 2,360,000         |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>  | <b>(477,774)</b>    | <b>(21)</b>        | <b>484,010</b>    |
| <b>EXCESS OF REVENUES AND OTHER<br/>SOURCES OVER (UNDER) EXPENDITURES<br/>AND OTHER USES</b> | <b>250,175</b>      | <b>(9,421)</b>     | <b>424,239</b>    |
| <b>FUND BALANCES - JULY 1</b>  | <b>1,965,006</b>    | <b>27,082</b>      | <b>89,201</b>     |
| <b>FUND BALANCES - JUNE 30</b>   | <b>\$ 2,215,181</b> | <b>\$ 17,661</b>   | <b>\$ 513,440</b> |

The accompanying notes are an integral part of these financial statements.

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

|   | General          |                  |  | Special Revenue  |                  |  |
|---|------------------|------------------|--|------------------|------------------|--|
|   | Budget           | Actual           | Variance<br>Favorable<br>(Unfavorable) | Budget           | Actual           | Variance<br>Favorable<br>(Unfavorable) |
| REVENUES  |                  |                  |  |                  |                  |  |
| Property taxes (including property tax relief trust distribution) | \$ 1,193,000     | \$ 1,425,554     | \$ 232,554                             |                  |                  |  |
| State assistance  | 5,929,162        | 6,066,883        | 137,721                                | \$ 4,313         | \$ 4,369         | \$ 56                                  |
| Federal assistance  |                  |                  |  | 1,124,255        | 1,190,229        | 65,974                                 |
| Activity revenues   | 1                | 107,892          | 107,891                                |                  |                  |  |
| Meal sales  |                  |                  |  | 165,780          | 147,642          | (18,138)                               |
| Investment income   | 30,000           | 44,458           | 14,458                                 |                  |                  |  |
| Other revenues  | 5,000            | 20,588           | 15,588                                 |                  | 32,949           | 32,949                                 |
| <b>TOTAL REVENUES</b>   | <b>7,157,163</b> | <b>7,665,375</b> | <b>508,212</b>                         | <b>1,294,348</b> | <b>1,375,189</b> | <b>80,841</b>                          |
| EXPENDITURES  |                  |                  |  |                  |                  |  |
| Regular programs  | 3,412,132        | 3,406,224        | 5,908                                  |                  | 185,415          | (185,415)                              |
| Special education   | 390,745          | 383,598          | 7,147                                  | 279,305          | 251,215          | 28,090                                 |
| Workforce education programs                                      | 331,912          | 326,322          | 5,590                                  |                  |                  |  |
| Compensatory education programs                                   | 269,138          | 263,006          | 6,132                                  | 316,722          | 271,611          | 45,111                                 |
| Other instructional programs                                      | 183,742          | 187,983          | (4,241)                                |                  |                  |  |
| Student support services  | 304,359          | 293,428          | 10,931                                 | 18,450           | 34,994           | (16,544)                               |
| Instructional staff support services                              | 353,774          | 360,575          | (6,801)                                | 70,212           | 58,604           | 11,608                                 |
| General administration support services                           | 160,787          | 154,917          | 5,870                                  | 12,670           | 9,355            | 3,315                                  |
| School administration support services                            | 351,071          | 350,598          | 473                                    |                  |                  |  |
| Central services support services                                 | 50,554           | 50,479           | 75                                     |                  |                  |  |
| Operation and maintenance of plant services                       | 785,787          | 690,532          | 95,255                                 |                  | 17,127           | (17,127)                               |
| Student transportation services                                   | 361,609          | 365,810          | (4,201)                                |                  | 11,089           | (11,089)                               |
| Other support services  | 2,000            | 5,780            | (3,780)                                | 34,253           | 29,810           | 4,443                                  |
| Food services operations  |                  |                  |  | 511,394          | 515,083          | (3,689)                                |
| Community services operations                                     |                  |                  |  | 1,630            | 286              | 1,344                                  |
| Facilities acquisition and construction services                  |                  |                  |  | 63,249           |                  | 63,249                                 |
| Activity expenditures   | 1                | 98,174           | (98,173)                               |                  |                  |  |
| <b>TOTAL EXPENDITURES</b>   | <b>6,957,611</b> | <b>6,937,426</b> | <b>20,185</b>                          | <b>1,307,885</b> | <b>1,384,589</b> | <b>(76,704)</b>                        |

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

|   | General      |              |  | Special Revenue |            |  |
|---|--------------|--------------|--|-----------------|------------|--|
|   | Budget       | Actual       | Variance<br>Favorable<br>(Unfavorable) | Budget          | Actual     | Variance<br>Favorable<br>(Unfavorable) |
| EXCESS OF REVENUES OVER (UNDER)<br>EXPENDITURES                                     | \$ 199,552   | \$ 727,949   | \$ 528,397                             | \$ (13,537)     | \$ (9,400) | \$ 4,137                               |
| OTHER FINANCING SOURCES (USES)  |              |              |  |                 |            |  |
| Transfers in  | 3,740,644    |              | (3,740,644)                            |                 |            |  |
| Transfers out   | (3,924,316)  | (477,774)    | 3,446,542                              |                 |            |  |
| Refund to Grantor   |              |              |  |                 | (21)       | (21)                                   |
| TOTAL OTHER FINANCING SOURCES (USES)  | (183,672)    | (477,774)    | (294,102)                              |                 | (21)       | (21)                                   |
| EXCESS OF REVENUES AND OTHER<br>SOURCES OVER (UNDER) EXPENDITURES<br>AND OTHER USES | 15,880       | 250,175      | 234,295                                | (13,537)        | (9,421)    | 4,116                                  |
| FUND BALANCES - JULY 1  | 2,071,185    | 1,965,006    | (106,179)                              | 26,183          | 27,082     | 899                                    |
| FUND BALANCES - JUNE 30   | \$ 2,087,065 | \$ 2,215,181 | \$ 128,116                             | \$ 12,646       | \$ 17,661  | \$ 5,015                               |

The accompanying notes are an integral part of these financial statements.

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Bergman School District (District). There are no component units.

**B. Description of Funds**

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting**

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

**D. Revenue Recognition Policies**

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

**E. Capital Assets**

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

| Asset Class                 | Estimated Useful Life in Years |
|-----------------------------|--------------------------------|
| Improvements/infrastructure | 20                             |
| Buildings                   | 50                             |
| Equipment                   | 5-20                           |

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Property Taxes**

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30<sup>th</sup> is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30<sup>th</sup> is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

**G. Interfund Receivables and Payables**

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

**H. Fund Balance Classifications**

1. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
3. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Budget and Budgetary Accounting**

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

**J. Stabilization Arrangements**

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

**K. Minimum Fund Balance Policies**

The District's Board of Education has not formally adopted a minimum fund balance policy.

**L. Fund Balance Classification Policies and Procedures**

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.



BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

M. Encumbrances

The District does not utilize encumbrance accounting.

N. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

**2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

|  | Carrying<br>Amount  | Bank<br>Balance     |
|--|---------------------|---------------------|
| Insured (FDIC)   | \$ 250,000          | \$ 250,000          |
| Collateralized:  |                     |                     |
| Collateral held by the pledging bank or pledging<br>bank's trust department in the District's name | 2,477,919           | 2,791,744           |
| Total Deposits   | <u>\$ 2,727,919</u> | <u>\$ 3,041,744</u> |

The above total deposits include certificates of deposit of \$1,149,730 reported as investments and classified as nonparticipating contracts.

**3: ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$41,222 at June 30, 2011 was comprised of the following:

| Description        | Governmental Funds |                 | Total     |
|--------------------|--------------------|-----------------|-----------|
|                    | Major              |                 |           |
|                    | General            | Special Revenue |           |
| Federal assistance |                    | \$ 40,437       | \$ 40,437 |
| Meal sales         |                    | 768             | 768       |
| Other              | \$ 17              |                 | 17        |
| Totals             | \$ 17              | \$ 41,205       | \$ 41,222 |

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**4: COMMITMENTS**

The District was contractually obligated for the following at June 30, 2011:

Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

| Date<br>of Issue | Date of Final<br>Maturity | Rate of<br>Interest | Amount<br>Authorized<br>and Issued | Debt<br>Outstanding<br>June 30, 2011 | Maturities<br>To<br>June 30, 2011 |
|------------------|---------------------------|---------------------|------------------------------------|--------------------------------------|-----------------------------------|
| 9/1/03           | 9/1/18                    |                     | \$ 244,113                         | \$ 244,113                           |                                   |
| 12/1/10          | 6/1/30                    | 1 - 3.5%            | 2,360,000                          | 2,360,000                            |                                   |
| Totals           |                           |                     | <u>\$ 2,604,113</u>                | <u>\$ 2,604,113</u>                  | <u>\$ 0</u>                       |

Changes in Long-term Debt

|               | Balance<br>July 1, 2010 | Issued              | Retired             | Balance<br>June 30, 2011 |
|---------------|-------------------------|---------------------|---------------------|--------------------------|
| Bonds payable | <u>\$ 2,494,113</u>     | <u>\$ 2,360,000</u> | <u>\$ 2,250,000</u> | <u>\$ 2,604,113</u>      |

\*Includes \$2,250,000 early retirement of debt - See Note 6.

Total long-term debt principal and interest payments are as follows:

| Year Ended<br>June 30, | Principal           | Interest          | Total               |
|------------------------|---------------------|-------------------|---------------------|
| 2012                   | \$ 60,000           | \$ 61,619         | \$ 121,619          |
| 2013                   | 100,000             | 61,019            | 161,019             |
| 2014                   | 100,000             | 59,019            | 159,019             |
| 2015                   | 100,000             | 57,019            | 157,019             |
| 2016                   | 105,000             | 55,019            | 160,019             |
| 2017-2021              | 819,113             | 242,006           | 1,061,119           |
| 2022-2026              | 680,000             | 166,750           | 846,750             |
| 2027-2030              | 640,000             | 55,087            | 695,087             |
| Totals                 | <u>\$ 2,604,113</u> | <u>\$ 757,538</u> | <u>\$ 3,361,651</u> |

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**4: COMMITMENTS (CONTINUED)**

Long-term Debt Issued and Outstanding (Continued)

Qualified Zone Academy Bond (QZAB)

On September 1, 2003, the District obtained funding through the Qualified Zone Academy Bond (QZAB) program, a financial arrangement authorized under the Taxpayer Relief Act of 1997. A QZAB does not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The District borrowed \$244,113 through this program by issuing a bond. The District will deposit \$13,600 annually into a sinking fund for 15 years for a total of \$204,000. This amount plus interest will be used to retire the debt when due.

**5: ACCOUNTS PAYABLE**

The accounts payable balance of \$38,046 at June 30, 2011 was comprised of the following:

| Description     | Governmental Funds |                    |                    | Total     |
|-----------------|--------------------|--------------------|--------------------|-----------|
|                 | Major              |                    | Other<br>Aggregate |           |
|                 | General            | Special<br>Revenue |                    |           |
| Vendor payables | \$ 16,785          | \$ 8,393           | \$ 12,868          | \$ 38,046 |

**6: DEBT REFUNDINGS**

On September 1, 2010, the District issued \$2,360,000 in refunding bonds with interest rates of 1 to 3.5 percent. The bonds proceeds were used to advance refund \$2,250,000 of outstanding bonds dated June 1, 2003, with interest rates of 3 to 4.7 percent. Net bond proceeds of \$2,291,313 were remitted to an escrow agent to provide for all future debt service payments for the bonds advance refunded and to pay fees. The 2003 series bonds were called for redemption on November 1, 2010. The 2003 series bonds were advance refunded to reduce the District's debt service requirements by \$295,367 over a period of 20 years. The remaining proceeds of \$6,236 (after payment of \$62,451 net bond issuance costs) were applied toward the first interest payment of the bond issue dated September 1, 2010.

**7: INTERFUND TRANSFERS**

The District transferred \$477,774 from the general fund to the other aggregate funds for debt related payments totaling \$53,858, annual debt savings of \$123,916 to be utilized for capital expenditures, and \$300,000 to supplement future capital projects.

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**8: RETIREMENT PLANS**

**Arkansas Teacher Retirement System**

**Plan Description.** The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

**Funding Policy.** ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2011, 2010, and 2009 were \$719,914, \$667,209, and \$647,802, respectively, equal to the required contributions for each year.

**Arkansas Public Employees Retirement System**

**Plan Description.** The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

**Funding Policy.** APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2011, 2010, and 2009 were \$1,231, \$1,224, and \$1,227, respectively, equal to the required contributions for each year.

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**9: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS**

ADDITIONS

|           |          |
|-----------|----------|
| Donations | \$ 2,000 |
|-----------|----------|

DEDUCTIONS

|              |              |
|--------------|--------------|
| Scholarships | <u>1,000</u> |
|--------------|--------------|

|                        |       |
|------------------------|-------|
| CHANGE IN FUND BALANCE | 1,000 |
|------------------------|-------|

|                       |              |
|-----------------------|--------------|
| FUND BALANCE - JULY 1 | <u>6,007</u> |
|-----------------------|--------------|

|                        |                        |
|------------------------|------------------------|
| FUND BALANCE - JUNE 30 | <u><u>\$ 7,007</u></u> |
|------------------------|------------------------|

**10: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for business trip accidental death and dismemberment. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk

The District participates in the Arkansas School Boards Association – Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Public School Property and Vehicle Insurance Trust Fund Program administered by the Risk Management Division of the Arkansas Insurance Department. The program's general objectives are to formulate, develop, and administer, on behalf of member districts, a program of insurance to obtain lower costs for property and vehicles coverage, and to develop a comprehensive loss control program. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

**11: ON-BEHALF PAYMENTS**

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$99,578 for the year ended June 30, 2011.

BERGMAN SCHOOL DISTRICT NO. 03  
BOONE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**12: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE**

| Description  | Governmental Funds  |                    |                    | Total               |
|--|---------------------|--------------------|--------------------|---------------------|
|  | Major               |                    | Other<br>Aggregate |                     |
|  | General             | Special<br>Revenue |                    |                     |
| Fund Balances:   |                     |                    |                    |                     |
| Restricted for:  |                     |                    |                    |                     |
| Alternative learning environment   | \$ 166              |                    |                    | \$ 166              |
| Educational programs -<br>national school lunch state<br>categorical funding | 5,453               |                    |                    | 5,453               |
| Capital projects   |                     |                    | \$ 123,916         | 123,916             |
| Child nutrition programs   |                     | \$ 8,920           |                    | 8,920               |
| Debt service   |                     |                    | 105,392            | 105,392             |
| Medical services   |                     | 8,738              |                    | 8,738               |
| Title I programs   |                     | 2                  |                    | 2                   |
| Other purposes   | 9,068               | 1                  |                    | 9,069               |
| Total Restricted   | <u>14,687</u>       | <u>17,661</u>      | <u>229,308</u>     | <u>261,656</u>      |
| Assigned to:   |                     |                    |                    |                     |
| Capital projects   |                     |                    | 284,132            | 284,132             |
| Student activities   | 36,475              |                    |                    | 36,475              |
| Total Assigned   | <u>36,475</u>       |                    | <u>284,132</u>     | <u>320,607</u>      |
| Unassigned   | <u>2,164,019</u>    |                    |                    | <u>2,164,019</u>    |
| Totals   | <u>\$ 2,215,181</u> | <u>\$ 17,661</u>   | <u>\$ 513,440</u>  | <u>\$ 2,746,282</u> |

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011  
(Unaudited)

Schedule 1

|                                       | Balance<br>June 30, 2011 |
|---------------------------------------|--------------------------|
| <i>Nondepreciable capital assets:</i> |                          |
| Land                                  | \$ 382,081               |
| <i>Depreciable capital assets:</i>    |                          |
| Buildings                             | 17,606,746               |
| Improvements/infrastructure           | 1,305,476                |
| Equipment                             | 1,756,863                |
| Total depreciable capital assets      | 20,669,085               |
| Less accumulated depreciation for:    |                          |
| Buildings                             | 5,593,094                |
| Improvements/infrastructure           | 329,829                  |
| Equipment                             | 1,033,318                |
| Total accumulated depreciation        | 6,956,241                |
| Total depreciable capital assets, net | 13,712,844               |
| Capital assets, net                   | \$ 14,094,925            |

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

| Federal Grantor/Pass-Through<br>Grantor/Program or Cluster Title                        | Federal<br>CFDA<br>Number | Pass-Through<br>Entity Identifying<br>Number | Federal<br>Expenditures    |
|---|---------------------------|--|----------------------------|
| <b>CHILD NUTRITION CLUSTER</b>  |                           |  |                            |
| <u>U. S. Department of Agriculture</u>  |                           |  |                            |
| Passed Through State Department of Education:   |                           |  |                            |
| School Breakfast Program - Cash Assistance  | 10.553                    | 05-02  | \$ 78,185                  |
| National School Lunch Program - Cash Assistance   | 10.555                    | 05-02  | 231,146                    |
| Total State Department of Education   |                           |  | <u>309,331</u>             |
| Passed Through State Department of Human Services:                                      |                           |  |                            |
| National School Lunch Program - Non-Cash Assistance<br>(Food Distribution) (Note 3)     | 10.555                    | 0502000                                      | <u>31,509</u>              |
| <b>TOTAL CHILD NUTRITION CLUSTER</b>  |                           |  | <u>340,840</u>             |
| <b>TITLE I, PART A CLUSTER</b>  |                           |  |                            |
| <u>U. S. Department of Education</u>  |                           |  |                            |
| Passed Through State Department of Education:   |                           |  |                            |
| Title I Grants to Local Educational Agencies  | 84.010                    | 05-02  | 242,154                    |
| ARRA - Title I Grants to Local Educational Agencies,<br>Recovery Act                    | 84.389                    | 05-02  | <u>62,344</u>              |
| <b>TOTAL TITLE I, PART A CLUSTER</b>  |                           |  | <u>304,498</u>             |
| <b>SPECIAL EDUCATION CLUSTER (IDEA)</b>   |                           |  |                            |
| <u>U. S. Department of Education</u>  |                           |  |                            |
| Passed Through State Department of Education:   |                           |  |                            |
| Special Education - Grants to States  | 84.027                    | 05-02  | 179,455                    |
| ARRA - Special Education - Grants to States,<br>Recovery Act                            | 84.391                    | 05-02  | <u>104,056</u>             |
| <b>TOTAL SPECIAL EDUCATION CLUSTER (IDEA)</b>   |                           |  | <u>283,511</u>             |
| <b>OTHER PROGRAMS</b>   |                           |  |                            |
| <u>National Endowment for the Arts</u>  |                           |  |                            |
| Passed Through Department of Arkansas Heritage - Arkansas Arts Council:                 |                           |  |                            |
| Promotion of the Arts - Partnership Agreements  | 45.025                    | 05-02  | <u>2,722</u>               |
| <u>U. S. Department of Education</u>  |                           |  |                            |
| Passed Through State Department of Education:   |                           |  |                            |
| Safe and Drug-Free Schools and Communities -<br>State Grants                            | 84.186                    | 05-02  | 1                          |
| Improving Teacher Quality State Grants  | 84.367                    | 05-02  | 42,871                     |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants,<br>Recovery Act | 84.394                    | 05-02  | 30,250                     |
| ARRA - Education Jobs Fund, Recovery Act  | 84.410                    | 05-02  | <u>209,298</u>             |
| Total U. S. Department of Education   |                           |  | <u>282,420</u>             |
| <b>TOTAL OTHER PROGRAMS</b>   |                           |  | <u>285,142</u>             |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>   |                           |  | <u><u>\$ 1,213,991</u></u> |

The accompanying notes are an integral part of this schedule.



BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Bergman School District No. 3 (District) under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 4: During the year ended June 30, 2011, the District received Medicaid funding of \$6,085 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Types of auditor's reports issued:      GAAP basis of reporting - adverse  
Regulatory basis opinion units - unqualified

Internal control over financial reporting:

☒ Material weakness(es) identified?      ☒ yes      ☐ no  
☒ Significant deficiency(ies) identified?      ☐ yes      ☒ none reported

Noncompliance material to financial statements noted?      ☐ yes      ☒ no

**FEDERAL AWARDS**

Internal control over major programs:

☒ Material weakness(es) identified?      ☐ yes      ☒ no  
☒ Significant deficiency(ies) identified?      ☐ yes      ☒ none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in  
accordance with Section 510(a) of OMB Circular A-133?      ☐ yes      ☒ no

Identification of major programs:

| CFDA Number(s)    | Name of Federal Program or Cluster       |
|-------------------|--|
| 84.010 and 84.389 | Title I, Part A Cluster                  |
| 84.027 and 84.391 | Special Education Cluster (IDEA)         |
| 84.410            | ARRA - Education Jobs Fund, Recovery Act |

Dollar threshold used to distinguish between type A and type B  
programs:      \$ 300,000

Auditee qualified as low-risk auditee?      ☐ yes      ☒ no

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

2011-1. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions in the financial statements.

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records and such employee had unrestricted access to the District's signature stamps. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls. The same employees were responsible for receiving and depositing monies collected, without compensating controls.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
FEDERAL AWARD PROGRAMS -  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

U. S. DEPARTMENT OF EDUCATION  
PASSED THROUGH STATE DEPARTMENT OF EDUCATION  
STATE FISCAL STABILIZATION FUND CLUSTER

2010 - Finding 2010-3: State Fiscal Stabilization Fund Cluster - CFDA Numbers 84.394 and 84.397

Condition: The District did not notify contractors of the requirement to comply with the Davis-Bacon Act and did not obtain copies of certified payrolls. The applicable contracts were as follows: a contract of \$167,000 for the replacement of heating and cooling systems, a contract of \$49,802 for the removal and replacement of roofing materials, and a contract of \$109,600 for the removal and replacement of florescent light fixtures.

Recommendation: The District should ensure that all applicable construction projects contain the required notification regarding compliance with the Davis-Bacon Act. Copies of weekly certified payrolls should be obtained for the applicable projects. The District should also contact the Arkansas Department of Education for further directives regarding the matter.

Current Status: Corrective action was taken.

2010 - Finding 2010-4: State Fiscal Stabilization Fund Cluster - CFDA Numbers 84.394 and 84.397

Condition: Contract of \$167,000 for the replacement of heating and cooling systems, \$49,802 for the removal and replacement of roofing materials, and \$109,600 for the removal and replacement of florescent light fixtures did not contain the Buy-American clause. The three contracts were previously identified in finding 2010-3.

Recommendation: The District should ensure that all applicable construction contracts contain the Buy-American clause. The District should also contact the Arkansas Department of Education for further directives regarding this matter.

Current Status: Corrective action was taken.

BERGMAN SCHOOL DISTRICT NO. 3  
BOONE COUNTY, ARKANSAS  
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011  
(Unaudited)

| <u>General Fund</u>                  | Year Ended June 30, |              |              |              |              |
|--------------------------------------|---------------------|--------------|--------------|--------------|--------------|
|                                      | 2011                | 2010         | 2009         | 2008         | 2007         |
| Total Assets                         | \$ 2,279,637        | \$ 2,078,428 | \$ 1,927,043 | \$ 2,513,116 | \$ 5,442,440 |
| Total Liabilities                    | 64,456              | 113,422      | 376,261      | 796,725      | 66,445       |
| Total Fund Balances                  | 2,215,181           | 1,965,006    | 1,550,782    | 1,716,391    | 5,375,995    |
| Total Revenues                       | 7,665,375           | 7,419,945    | 7,288,272    | 7,206,243    | 7,094,581    |
| Total Expenditures                   | 6,937,426           | 6,824,449    | 6,769,608    | 6,507,871    | 6,311,306    |
| Total Other Financing Sources (Uses) | (477,774)           | (181,272)    | (684,273)    | (4,357,976)  | (1,065,996)  |
| <br><u>Special Revenue Fund</u>      |                     |              |              |              |              |
| Total Assets                         | 41,205              | 161,047      | 15,390       | 43,543       | 42,170       |
| Total Liabilities                    | 23,544              | 133,965      | 328          | 1,177        |              |
| Total Fund Balances                  | 17,661              | 27,082       | 15,062       | 42,366       | 42,170       |
| Total Revenues                       | 1,375,189           | 1,629,631    | 929,848      | 843,216      | 813,509      |
| Total Expenditures                   | 1,384,589           | 1,617,611    | 1,009,959    | 861,588      | 794,526      |
| Total Other Financing Sources (Uses) | (21)                |              | 52,807       | 18,568       | 1,959        |
| <br><u>Other Aggregate Funds</u>     |                     |              |              |              |              |
| Total Assets                         | 526,308             | 89,201       | 73,414       | 742,784      | 58,268       |
| Total Liabilities                    | 12,868              |              |              | 685,041      | 15,686       |
| Total Fund Balances                  | 513,440             | 89,201       | 73,414       | 57,743       | 42,582       |
| Total Revenues                       | 12,841              | 2,187        | 907,517      | 3,688,206    | 531,984      |
| Total Expenditures                   | 72,612              | 167,672      | 1,523,312    | 8,012,453    | 1,581,460    |
| Total Other Financing Sources (Uses) | 484,010             | 181,272      | 631,466      | 4,339,408    | 1,064,037    |